

**City of Lancaster City Revitalization and
Improvement Zone Authority
(A Component Unit of the
City of Lancaster, Pennsylvania)**

Financial Statements

December 31, 2018 and 2017

**City of Lancaster City Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)**

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Independent Auditors' Report

To the Board of Directors of
City of Lancaster City Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Lancaster City Revitalization and Improvement Zone Authority (the "Authority"), (a component unit of the City of Lancaster, Pennsylvania), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and change in net deficit and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Lancaster City Revitalization and Improvement Zone Authority as of December 31, 2018 and 2017, and the changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
April 22, 2019

City of Lancaster City Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Statements of Financial Position
 December 31, 2018 and 2017

Assets	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 5,857,911	\$ 2,229,548
Restricted cash	<u>1,021,419</u>	<u>1,756,067</u>
Total current assets	<u><u>\$ 6,879,330</u></u>	<u><u>\$ 3,985,615</u></u>
Liabilities and Net Deficit		
Liabilities		
Current liabilities:		
Current portion of long term debt	\$ 2,061,000	\$ 1,175,000
Accounts payable	55,212	5,000
Accrued interest	<u>6,606</u>	<u>7,539</u>
Total current liabilities	<u>2,122,818</u>	<u>1,187,539</u>
Non-current liabilities:		
LCCA obligation	-	900,000
Tax-exempt bonds payable	<u>5,089,000</u>	<u>5,805,000</u>
Total non-current liabilities	<u>5,089,000</u>	<u>6,705,000</u>
Total liabilities	<u>7,211,818</u>	<u>7,892,539</u>
Net Deficit		
Unrestricted	<u>(332,488)</u>	<u>(3,906,924)</u>
Total liabilities and net deficit	<u><u>\$ 6,879,330</u></u>	<u><u>\$ 3,985,615</u></u>

See notes to financial statements

City of Lancaster City Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Statements of Revenues, Expenses and Change in Net Deficit
 Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Governmental grants	\$ 6,395,611	\$ 3,752,263
Other income	10,956	3,984
Application fee revenue	5,000	-
	<u>6,411,567</u>	<u>3,756,247</u>
Total revenues		
Expenses		
Grant expenses	2,365,197	2,220,483
Professional fees	315,842	161,140
Interest expense	129,672	142,506
Accounting fees	21,648	18,113
Rent expense	3,795	750
Advertising	977	-
	<u>2,837,131</u>	<u>2,542,992</u>
Total expenses		
Change in net deficit	3,574,436	1,213,255
Net Deficit, Beginning	<u>(3,906,924)</u>	<u>(5,120,179)</u>
Net Deficit, Ending	<u>\$ (332,488)</u>	<u>\$ (3,906,924)</u>

See notes to financial statements

City of Lancaster City Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from governmental grants and application fees	\$ 6,411,567	\$ 3,756,247
Cash paid to vendors	<u>(2,787,852)</u>	<u>(2,538,932)</u>
Net cash provided by operating activities	<u>3,623,715</u>	<u>1,217,315</u>
Cash Flows Used in Capital and Related Financing Activities		
Repayments of long-term debt	<u>(730,000)</u>	<u>(800,000)</u>
Increase in cash	2,893,715	417,315
Cash, Beginning (includes restricted cash of \$1,756,067 at January 1, 2018 and \$1,417,589 at January 1, 2017)	<u>3,985,615</u>	<u>3,568,300</u>
Cash, Ending (includes restricted cash of \$1,021,419 at December 31, 2018 and \$1,756,067 at December 31, 2017)	<u>\$ 6,879,330</u>	<u>\$ 3,985,615</u>
Reconciliation of Change in Net Deficit to Net Cash Provided by Operating Activities		
Change in net deficit	\$ 3,574,436	\$ 1,213,255
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Changes in assets and liabilities:		
Accounts payable	50,212	4,060
Accrued interest	<u>(933)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 3,623,715</u>	<u>\$ 1,217,315</u>

See notes to financial statements

City of Lancaster City Revitalization and Improvement Zone Authority (A Component Unit of the City of Lancaster, Pennsylvania)

Notes to Financial Statements
December 31, 2018 and 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The City of Lancaster City Revitalization and Improvement Zone Authority (the "Authority") is a component unit of the City of Lancaster, Pennsylvania. The Authority was organized in 2013 by the City of Lancaster, Pennsylvania (the "City") under the Pennsylvania Municipality Authorities Act of 1945, as amended and supplemented, by Article XVIII-C of House Bill No. 465, Session of 2013. The Authority's purpose is to acquire, hold, construct, improve, maintain, own, finance and lease, industrial, specialized or commercial development projects for purposes of administering, providing financing for and undertaking all other activities related to the City Revitalization and Improvement Zone (the "CRIZ") of the City. The CRIZ consists of approximately 130 acres in downtown Lancaster and in selected areas in the remaining parts of the City. Certain qualified state and local tax revenues are provided to the Authority for the repayment of debt service on bonds and loans issued for the acquisition, improvement and development of qualified capital improvements within the CRIZ.

Reporting Entity

The reporting entity has been defined in accordance with Government Accounting Standards Board ("GASB") Statement 14, as amended by GASB Statements 39, 61 and 80. The Authority's financial statements include the operations of all organizations for which the Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Based on the oversight criteria above, the Authority has been included as a component unit of the City.

Basis of Accounting, Measurement Focus

The accounting and reporting policies of the Authority relating to its proprietary fund type included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the GASB.

The proprietary fund-type is accounted for on an economic resources management focus, using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Standards

The Authority adopted GASB Statement No. 85, Omnibus 2017 for the year ended December 31, 2018. GASB 85 enhances consistency in application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of this standard did not have a significant impact on the Authority's financial statements.

City of Lancaster City Revitalization and Improvement Zone Authority (A Component Unit of the City of Lancaster, Pennsylvania)

Notes to Financial Statements
December 31, 2018 and 2017

The Authority adopted GASB Statement No. 86, Certain Debt Extinguishment Issues for the year ended December 31, 2018. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. The adoption of this standard did not have any impact on the Authority's financial statements.

2. Cash

The Authority Code, Section 902.1, authorizes investments in U.S. Treasury bills, savings accounts, obligations of the United States or its agencies, and shares of investment companies registered under the Investment Company Act of 1940. Act 72 requires all governmental (public fund) deposits not insured by Federal Depository Insurance Corporation ("FDIC") be collateralized by the financial institution.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to them. The Authority does not have a formal deposit policy for custodial credit risk. At December 31, 2018 and 2017, respectively, the Authority's total bank deposits were \$6,860,005 and \$4,521,812, respectively. The deposits that were not covered by depository insurance were collateralized with securities held by the pledging financial institution, but not in the Authority's name.

3. Restricted Cash

The 2015 Tax Revenue Bonds require the following amounts be held as restricted cash:

	<u>2018</u>	<u>2017</u>
Debt service reserve	\$ 131,686	\$ 304,596
Bond revenue reserve	242,347	479,086
Unused bond proceeds	<u>647,386</u>	<u>972,385</u>
Total	<u>\$ 1,021,419</u>	<u>\$ 1,756,067</u>

4. Tax Revenue

The provisions of the Act of July 9, 2013, P.L. 270, No. 52 of the Pennsylvania General Assembly, as amended and supplemented (the "CRIZ Act"), authorized the establishment of the CRIZ in an area not to exceed 130 acres. The taxes enumerated in the CRIZ Act from all taxpayers associated with qualified business within the CRIZ are to be distributed by the Treasurer of the Commonwealth to the CRIZ Authority for eligible uses under the CRIZ Act. Currently, there are seven eligible state taxes and two out of four eligible local taxes are used to calculate revenue.

5. Long-Term Debt

In 2014, the Authority entered into a collaboration agreement with the Lancaster County Convention Center Authority ("LCCCA"), for purposes of funding a portion of LCCCA's obligations for the replacement of furniture, fixtures and equipment within the Convention Center under the JDA and Condominium Declaration. The obligation had an outstanding balance of \$1,800,000 at December 31, 2018 and 2017, respectively, with maturity in 2019. The interest rate for the obligation has been set at 0 percent.

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Notes to Financial Statements
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In 2015, the CRIZ issued \$6,080,000 of Tax Revenue Bonds, Series 2015 which was guaranteed by the City. The 2015 Bonds are due in varying annual installments beginning December 2017 through December 2041, plus interest. The initial rate of interest applicable to the bond is 2.79 percent for a period beginning on the date of issuance through and including December 15, 2020. Beginning on December 16, 2020 the interest rate will be adjusted to 70 percent of the sum of the one-month LIBOR and 2.50 percent. Under no circumstances shall the variable rate exceed 6.00 percent at any time. The CRIZ then assigned the bonds to the Trustee, Fulton Bank, and pledged tax revenue, as defined in the Trust Indenture that the CRIZ would have been paid from the Commonwealth of Pennsylvania for payment on the debt obligation. The interest rate at December 31, 2018 and 2017 is 2.79 percent

Long-term debt/other obligations consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
LCCCA Obligation	\$ 1,800,000	\$ 1,800,000
2015 Bonds	<u>5,350,000</u>	<u>6,080,000</u>
	<u>\$ 7,150,000</u>	<u>\$ 7,880,000</u>

The following is a summary of debt and other obligation transactions for the year ended December 31, 2018:

	<u>2018</u>	<u>2017</u>
Long-term debt at January 1, 2018	\$ 7,880,000	\$ 8,680,000
Borrowing	-	-
Payments	<u>(730,000)</u>	<u>(800,000)</u>
Long-term debt at December 31, 2018	7,150,000	7,880,000
Current portion	<u>(2,061,000)</u>	<u>(1,175,000)</u>
Long-term debt, net	<u>\$ 5,089,000</u>	<u>\$ 6,705,000</u>

Annual debt service requirements with respect to this long-term debt are as follows:

	<u>LCCCA Obligation</u>	<u>Tax Revenue Bonds 2015</u>	<u>Total</u>
2019	\$ 1,800,000	\$ 261,000	\$ 2,061,000
2020	-	268,000	268,000
2021	-	121,000	121,000
2022	-	128,000	128,000
2023	-	135,000	135,000
2024 - 2028	-	809,000	809,000
2029 - 2033	-	1,084,000	1,084,000
2034 - 2038	-	1,448,000	1,448,000
2039 - 2041	-	1,096,000	1,096,000
Total	<u>\$ 1,800,000</u>	<u>\$ 5,350,000</u>	<u>\$ 7,150,000</u>

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

To the Board of Directors of
City of Lancaster City Revitalization and Improvement Zone Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Lancaster City Revitalization and Improvement Zone Authority (the "Authority") (a component unit of the City of Lancaster, Pennsylvania) which comprise the statement of financial position as of December 31, 2018, and the related statements of revenues, expenses and change in net deficit and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 22, 2019. Our report disclosed that the Authority elected to exclude a Management's Discussion and Analysis, that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements. Our opinion was not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
April 22, 2019